

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: ECON, CA

SUBJECT: CONFERENCE BOARD'S ECONOMIC FORECAST

1. SUMMARY: QUARTERLY FORECAST OF 1977 CANADIAN ECONOMY, RELEASED BY CONFERENCE BOARD IN CANADA ON MARCH 21, REPEATS BOARD'S PREDICTION OF LAST DECEMBER FOR SLUGGISH GROWTH DURING YEAR. REAL GROWTH NOW FORECAST AT 2.9 PERCENT, COMPARED TO 3.0 PERCENT EXPECTED IN DECEMBER, AND BOARD CLAIMS MAIN WEAKNESS IN OUTLOOK CONTINUES TO BE INVESTMENT SPENDING. BOARD'S PREDICTIONS DO NOT TAKE INTO ACCOUNT ANY POLICY CHANGES IN MARCH 31 BUDGET. END SUMMARY

2. CONFERENCE BOARD IN CANADA RELEASED LATEST QUARTERLY FORECAST ON CANADIAN ECONOMY WITH STATEMENT THAT "RECENT INDICATORS SUGGEST THAT THE SLOWDOWN IN ECONOMIC ACTIVITY IN CANADA...HAS NOT YET RUN ITS COURSE, AND THAT THE CANADIAN ECONOMY HAS YET TO TURN THE CORNER TOWARDS RENEWED EXPANSION."

3. BOARD CLAIMS THAT MOST OF 1976 REAL GNP GROWTH OF UNCLASSIFIED

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4.6 PERCENT OCCURRED IN FIRST QUARTER AND THAT DURING FINAL QUARTERS OF 1976 REAL GNP GREW AT ANNUAL RATE OF LESS THAN HALF OF ONE PERCENT. THUS, HEADING INTO 1977 "WEAKNESS IN SEVERAL KEY SECTORS WILL ENSURE A GENERALLY POOR ECONOMIC PERFORMANCE AT LEAST UNTIL MID-YEAR."

4. BOARD IDENTIFIES PRINCIPAL WEAKENSS IN ECONOMIC

OUTLOOK AS INVESTMENT SPENDING. HOUSING STARTS EXPECTED TO DECLINE WITH REAL INVESTMENT ON RESIDENTIAL CONSTRUCTION DROPPING BY 4 PERCENT. REAL PLANT AND EQUIPMENT SPENDING ALSO EXPECTED DECREASE BY 2.6 PERCENT.

5. MERCHANDISE TRADE BALANCE EXPECTED TO STRENGTHEN, BUT THIS WILL BE RESULT OF LOWER GROWTH IN MERCHANDISE IMPORTS RATHER THAN STRONG UPSURGE IN EXPORTS, WHICH ARE FORECAST TO RISE BY 4.75 PERCENT IN 1977 VERSUS 12 PERCENT INCREASE IN 1976. WITH FURTHER DETERIORATION IN SERVICE DEFICIT, LITTLE CHANGE EXPECTED IN CURRENT ACCOUNT DEFICIT OF C\$4.3 BILLION IN 1976.

6. CONSUMER SPENDING, WHICH HAS BEEN MAINSTAY OF ECONOMY DURING PAST TWO YEARS, EXPECTED CONTINUE AT HIGH LEVELS WITH REAL GROWTH OF 4.1 PERCENT IN 1977. HOWEVER, THIS RATE OF GROWTH IS DOWN FROM 6.3 PERCENT IN 1976.

7. BOARD FORSEES FURTHER INCREASES IN UNEMPLOYMENT RATE, REACHING 8.3 PERCENT IN FOURTH QUARTER AND AVERAGING 7.9 PERCENT FOR YEAR. MODERATING TREND IN CPI INCREASES "APPEARS TO HAVE COME TO AN END, AT LEAST TEMPORARILY," AND BOARD FORECASTS ACCELERATION IN PACE OF INFLATION IN EARLY 1977 BUT EASING ABOUT MID-YEAR. FOR YEAR AS WHOLE, CPI FORECAST TO RISE BY 6.9 PERCENT, COMPARED TO 7.5 PERCENT IN 1976.

8. COMMENT: WITH FINMIN MACDONALD'S BUDGET ONLY 10 UNCLASSIFIED

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DAYS HENCE, CONFERENCE BOARD'S FORECAST OF SLOWER GROWTH AND HIGHER UNEMPLOYMENT THIS YEAR THAN LAST WILL PLACE ADDITIONAL PRESSURE ON MACDONALD TO STIMULATE ECONOMY. HOWEVER, AS BOARD ECONOMIST REMARKED TO EMBOFF, MACDONALD IS IN REAL BIND. IF HE OPTS FOR PERSONAL TAX CUTS TO SPUR CONSUMER SPENDING, HE RUNS RISK OF EXACERBATING CURRENT ACCOUNT DEFICIT AND ADDING TO RENEWED INFLATIONARY PRESSURES IN FIRST HALF OF 1977. IF HE CHOOSES INCREASED BUSINESS INVESTMENT TAX CREDITS, CRITICS WILL CHARGE LIBERAL GOVERNMENT WITH BEING INSENSITIVE TO UNEMPLOYMENT PROBLEM. (GOD HAS NOT MADE GREAT EFFORT TO EXPLAIN NEED FOR BUSINESS PROFITS AND INVESTMENTS TO CANADIAN POPULACE, AND TOO MANY CITIZENS STILL REMEMBER GOC MINISTERS CRITICIZING "EXCESS PROFITS" OF CORPORATIONS AND "GREED" OF BIG BUSINESS AND LABOR).

9. BOARD ECONOMIST DID NOT THINK MACDONALD'S BUDGET WOULD CONTAIN STRONG STIMULATIVE MEASURES BUT WOULD

HAVE "SMALL DOSE" OF STIMULATION IN ORDER HOLD DOWN
RISING UNEMPLOYMENT FIGURES. ENDERS

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